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ABSTRACT

Funding education with property taxes has always been controversial. This paper examines taxation and the sources of revenue for education. The historical context in which tax and revenue sources have supported education in the United States is described. Also discussed are state tax-policy goals and education funding, and the embattled role of the property tax in funding education. Next, nontax revenues for education, such as state lotteries and school-district entrepreneurship, which have significant equity concerns are discussed. The paper conclude with a series of conclusions and considerations for state policymakers. As states grapple with support levels for education they will also face the responsibility for determining or amending the overall tax structure and a series of overriding policy questions, such as: (1) What level of support should legislatures provide for education? (2) What amounts need to be spent to provide educational opportunity for all children? and (3) How much money does the state have to spend? The appendix highlights the principles of a high-quality state revenue system. (Contains 31 endnotes and 47 references.) (LMI)

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Working Papers

Taxation and Revenues for Education

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Few topics are as hotly debated in the public policy arena as taxation. Yet for many years, in education finance, the majority of emphasis has been placed on the revenues available to school districts, in particular, state formulas for distribution of aid to local school districts. The one possible exception has been the continuing debate over the use of the real property tax, which remains a highly unpopular tax.

This paper examines taxation and revenues for education. It is divided into five parts.

- An historical look at which tax and revenue sources have supported education in the United States.
- An analysis of state tax policy goals and education funding.
- An examination of the embattled role of the property tax in funding education.
- A discussion of non-tax revenues for education.
- A series of conclusions and considerations for state policymakers.

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Historical Context of Taxes and Revenue for Education

Before the mid-1800s, education and its funding in the United States were largely a private affair. As a result of the common school movement, most states gave local school districts the authority to levy property taxes for the purpose of funding schools, and by this delegation created the legacy of local control of schools. Although states provided some resources, such as earnings from school trust funds, these were not sufficient to fund schools. From the beginning, the use of the property tax for funding education proved controversial for many of the same reasons given today, e.g., that people without school-aged children must pay taxes to support the education of others' children. A second objection arose from the impact of variations in property wealth among school districts. With virtually no equalized state aid, schools in property poor districts routinely closed due to lack of funds.

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The inception of state taxes on sales and income have allowed many states to assume a larger proportion of school funding. To a lesser extent, state revenues from lotteries, gaming and taxes on alcohol and tobacco have also contributed. In 1993-1994, the average state share stood at 46 percent the local at 46.8 percent the federal at 7.2 percent.¹ The state share peaked at 49.4 percent in 1986-87 and has slowly declined. The federal share has remained fairly constant, around 6 percent to 7 percent over the last decade. These statistics may suggest that the state/local/federal partnership is reaching an equilibrium, with the state and local school districts entering a fairly even partnership and federal revenues playing a much smaller role. On the other hand, when one examines relative proportions on a state-by-state basis, tremendous variation in the state/local partnership emerges. For example, in 1993-1994, state shares ranged from 8.6 percent in New Hampshire to 90.9 percent in Hawaii and 61.8 percent in New Mexico.² Local shares ranged from 2.1 percent in Hawaii and 27.9 percent in New Mexico to 88.9 percent in New Hampshire. Federal shares ranged from 2.8 percent in New Hampshire to 16.6 percent in Mississippi. It is important to remember that national averages mask considerable variation in state/local shares in funding education.

Education Funding and State Tax Policy

In 1992, NCSL convened a group of legislators, legislative staff and business representatives to examine the principles of a high quality state revenue system. The findings of the group illustrate the key goals of state tax policy. Among those principles are reliability, (e.g., stability, certainty and sufficiency), balance, equity and accountability. (See Appendix A for a complete description of the principles.)

State education policy goals are reflected in the principles of

- equity
- efficiency
- adequacy
- accountability
- stability

As a major source of school district revenue, the property tax can be evaluated similarly. But, a state education system has an additional burden—that of providing a quality education to every child in the state.³ State education finance systems, and specifically the property tax, are typically examined according to the policy goals reflected in the principles of equity, efficiency, adequacy, accountability and stability.

Since state and local governments spend, on average, an amount equal to about 40 percent of their tax collections on K-12 education, a proposal for significant change in public funding for education immediately translates into a question of general tax policy: Given the demands in other areas of public spending, can state and local governments shift enough resources to education to affect spending totals? State funding for K-12 education has been under pressure since the late 1980s because demands for spending for Medicaid and corrections have been growing faster than state resources. To prevent K-12 education from losing out from these pressures on the state budget, states will continue to look for other forms of revenue.

Americans are generally opposed to higher taxes, but attitudes are not quite as simple as that implies. Some states have found voters willing to endorse tax increases for K-12 education. In the early 1990s, for example, Oklahoma voters endorsed sales and income tax increases ear-

marked for K-12 education in referendum, and then immediately started signing petitions to call for all state tax increases to be referred to the voters, interpreted as evidence of tax exhaustion.

According to national surveys that have annually asked what taxes voters think are worst or most unfair, voters dislike federal income taxes and local property taxes the most, state sales taxes next, and state income taxes the least. State tax policy in recent years seems to have ignored these preferences: in 1994, 1995 and 1996, the largest tax cuts were in personal income taxes, accompanied by major increases in state sales taxes in 1994 and reductions in 1995 and 1996 that were much smaller than the cuts in state income taxes.⁴ Property tax collections have been increasing at the same time. Such decisions are, of course, made state by state, not on a national basis, and may accurately reflect local preferences: the large sales tax increase of 1994 was mostly due to Michigan's shift from local property taxes for schools to the state sales tax.

Finally, state tax policy operates in a context of continuing public displeasure with property taxes that has, so far, produced significant property tax relief in at least 16 states in 1995 and 1996. One more state legislature referred property tax cuts to the voters for the November 1996 ballot. By a 2 to 1 margin, Nebraska voters rejected Measure 412 that would have amended the constitution to allow limits on property-tax rates. Additionally, ballot initiatives in Idaho and Oregon to limit property taxes also went down to defeat. In the current state fiscal climate, many state governments have used other revenue sources to increase state aid to school districts and make property tax cuts feasible.⁵

In doing so, however, states are putting themselves into a precarious position. For three years, states have been generally reducing taxes, enabled to do so by steady if unremarkable economic growth, shrinking caseloads for social welfare programs, and state spending growth at or near the level of inflation. Any change in the economic climate could upset the current state fiscal balance. It can be argued that the current focus on cutting taxes without full consideration of the long-term implications of doing so could present difficulties for future policymakers.

The Embattled Role of the Property Tax

After more than a century, the use of the property tax for funding public elementary and secondary education in the United States remains controversial. In spite of its continued unpopularity,⁶ the property tax is still the major local revenue source for education, and the structure of the tax itself is largely unchanged from the 1800s. Over the last 25 years, the use of property taxes has been challenged repeatedly in school finance litigation. In recent years, there has appeared to be the beginning of a second wave of taxpayer revolt against the property tax, which is more focused in nature than that of the 1970s. This section of the paper examines the role of litigation and the history of property tax revolt and reform, examining alternatives to the property tax and the potential impacts on education funding and taxpayers.

Many states have used other revenue sources to increase state aid to schools and make property tax cuts feasible.

Property wealth and taxation have played significant roles in lawsuits challenging public education financing.

School Finance Litigation and the Property Tax

Since the late 1960s, lawsuits challenging the financing of public education have been filed in forty-three states, with property wealth and taxation playing a significant role. The majority of the lawsuits, brought by school districts, parents and students against state level elected officials, generally have challenged the equity of per pupil operating expenditures. Because property wealth tends to be unevenly distributed among school districts, significant disparities in both revenues and per-pupil expenditures exist among school districts in a state unless there is substantial equalized state aid. Over the years, numerous plaintiffs have pointed out that property-poor districts must make an extraordinary tax effort to approach the spending levels of more affluent districts, resulting in a much heavier property tax burden.⁷

School finance experts look to a 1971 decision, *Serrano vs. Priest*,⁸ as the watershed moment for court involvement in education finance. A central finding in that case was the court's determination that dependence on local property taxes discriminated against children because it made the quality of their education dependent upon their school district wealth. However, the *Serrano* decision did not outlaw the property tax as a means of school support.

A second pivotal decision in school finance litigation was handed down in 1973, *San Antonio Independent School District vs. Rodriguez*, when the United States Supreme Court overturned a federal district court ruling in a Texas school finance suit similar to *Serrano vs. Priest*.⁹ *Rodriguez* was the first school finance case filed in federal court. The Supreme Court ruled that the U.S. Constitution did not guarantee education as a fundamental right. Furthermore, the Court found that the Texas system of allocating state aid, which relied heavily on local property taxes, did not violate the rights of people living in property-poor school districts. The Court's decision made school finance a state question.

Overall, school finance litigation decisions have split evenly with regard to the permissibility of disparities in per pupil operating expenditures resulting from variations in school district property wealth. The scorecard for school finance litigation in 1994, with 12 cases decided, was not substantially different.¹⁰ Of the 12 decisions, seven state systems were found constitutional and five unconstitutional. This ratio is consistent with the track record when one looks at the previous four-year period, 1989-1993.¹¹

Presently, 19 states are in the throes of litigation. Even where the courts have ruled in favor of plaintiffs, the constitutionality of the property tax has remained intact.

Property Tax Revolt and Reform

Because the property tax continues to serve as an important source of education funding, state legislation and voter-approved measures, particularly tax limitations, have the potential to significantly alter education funding. At present, 41 states have some kind of limitation on the property tax.¹² At the very least, such limitations may serve to erode the local property tax

base; at the worst they may contribute to taxpayer and student inequities. This section distinguishes between property tax revolution and reform. Although both may have significant impact on property tax revenues, measures classified under property tax revolution have broader and more dramatic effects. Property tax measures that attempt to correct for imperfections in the tax itself are referred to here as property tax reform. Property tax reform has been less sweeping, attempting to address perceived inequities in the property tax for particular groups of taxpayers. Implementation of multiple tax breaks over time can have a significant impact on the tax base and productivity. Traditionally, an increase in the property tax rate has been an option to maintain revenues.

The best known taxpayer revolt is Proposition 13, passed by California voters in 1978, capping the total property tax rate at 1 percent at a time when the state average was 2.5 percent. Without state revenues to compensate for the loss of property tax revenues, spending on education, as well as other local services plummeted. California's rank in per pupil expenditure dropped dramatically from near the top to 39th in the nation in 1992-1993.¹³ California's initiative was followed by Proposition 2 1/2 in Massachusetts. Although these propositions represent the most publicized measures of that era, other states, such as Ohio, had passed limitation measures earlier. In 1976, Ohio passed a revenue rollback measure that stipulated, "when real property values increase because of inflation, revenue is limited to the amount generated by initial year of the levy."¹⁴ Some have argued that such extreme measures were necessary as property taxes were increasing rapidly and imposing an excessive tax burden. The mid- to late 1970s was a period of high inflation and relatively high mortgage rates. It was unusual in that property values and hence property taxes were increasing faster than wages.¹⁵ Although each state has its own special set of circumstances, overall property taxes were not out of line with other taxes. In fact, between 1970 and 1975, property tax collections declined as a percentage of total state and local tax collections, from 46.3 percent to 41.8 percent, while sales and income taxes increased.¹⁶ These property tax limitation measures gave immediate relief to taxpayers but would have long-term consequences as inflation diminished and other economic conditions changed over time.

Under California's Proposition 13, which limited the total property tax rate, spending on education plummeted.

Mechanisms, such as homestead exemptions, date back to the 1930s when states used them so that economically strapped homeowners would not lose their property to foreclosure.¹⁷ Many of those exemptions remained after the economy improved. From the 1950s to the present, homestead exemptions, credits and related measures have been instituted for groups perceived to be at an economic disadvantage, such as senior citizens, renters and low-income families. Also included in this category are circuit breakers and property tax deferral programs, usually targeted to senior citizens.

Almost all states have implemented at least one tax reform measure. In addition, some states give property tax breaks to special groups, regardless of income, such as veterans or the disabled. Property tax reforms, when targeted to low-income homeowners or renters, have the potential to address that portion of the property tax that may legitimately be construed as a regressive tax on consumption. However, property tax exemptions for those who fall into middle-and upper-income brackets are more questionable regardless of their special status.

The continuation of property tax reform instituted half a century ago under special economic conditions is difficult to justify. Such provisions narrow the property tax base available to local users, such as school districts, who often have no other local revenue sources available to them.¹⁸ Some states may reimburse school districts directly for lost tax revenues or indirectly through more state aid. In cases where they do not, school districts may face financial hardship.

A second wave of property tax reform and revolution may be in the making, but unlike the first wave of the 1970s, it seems more focused on the property tax as a revenue source for education funding. In 1990, Oregon voters approved Measure 5, which

...amends the Oregon Constitution to limit property tax rates for the public school system to 15 mills in 1991-92 with a systematic reduction (2.5 mills per year) to five mills in 1995-96. The state's general fund is required to replace, until 1996, property tax revenues lost to school system due to the limitation.¹⁹

Voter approved bonded indebtedness for school districts is exempt. Without any new tax sources, the phasing in of the tax limitation has shifted state resources from other services to funding for elementary and secondary education. For example, from FY 1994 to FY 1995, state general fund expenditures for K-12 education increased 25.3 percent compared with the national average of 4 percent,²⁰ increasing that state's share of education funding from approximately 41 percent to 50 percent.

State resources have been shifted from other services to fund K-12 education.

In 1993, the Michigan Legislature voted to eliminate the use of property taxes for funding education.²¹ Months later voters would be asked to select between an increase in sales tax (and to a lesser extent, some excise taxes) and income tax for replacement revenue; they chose the former. In addition, Michigan implemented a statewide property tax of 6 mills on all property and 18 mills on nonresidential property, effectively reimposing about \$3 billion in property taxes, earmarked for education. These actions resulted in a dramatic shift in the state/local funding partnership and a reduction in property tax burdens. Redistribution of the state property tax through state aid narrowed disparities in per pupil expenditures, achieving a higher level of horizontal equity. The major new revenue source came from the increase in the sales tax from 4 percent to 6 percent, made more palatable to voters since Michigan's rate was below that of neighboring states. Also Michigan's reliance on the property tax to fund education was higher than the national average. However, few states are in Michigan's position with a lower than average tax that can be tapped to offer property tax relief. In 1994, Wisconsin, Idaho and South Carolina took advantage of increased state revenues from healthy state economies to lower property taxes for school districts, replacing lost local revenues with state revenues.²²

Whether the above measures constitute a second wave of tax revolt, this time focusing on the use of the property tax for education, is unknown. Oregon for example, has historically relied heavily on property taxes because it lacks a sales tax. Income tax burden in Oregon is also very high, near the top in the nation. In the long term, it may be difficult for Oregon to sustain

its commitment to higher state aid and lower property taxes without significant new revenue. According to FY 1992 data, Wisconsin's total property tax burden, of 4.3 percent of per capita personal income, exceeded the national average of 3.5 percent.²³ Comparatively, the property tax burdens of South Carolina and Idaho fell below the national average, 2.8 percent and 2.7 percent respectively.²⁴

It is premature to announce a second wave of taxpayer revolt, however, the number of measures that focus on the reduction or elimination of the property tax as a source of revenue for education are cause for concern for policymakers. In some states there appears to be well-founded concern regarding over-reliance on the property tax in general and in particular as a funding source for education. In other states, the unpopularity of the property tax may be an important factor driving discussions for its reduction or elimination. School districts as the single largest users of the property tax may be the most visible target even though, overall, their share of property tax revenues is less than half in most states. However, in New York state, schools get more than half of their revenues from the property tax. If the long-standing unpopularity of the property tax is a key factor in calls for property tax relief, perhaps the time is right for policymakers to evaluate and reform the attributes of the property tax that make it most objectionable.

Concern exists in some states about over-reliance on the property tax as a funding source for education.

Alternatives to the Property Tax

During the 1995 and 1996 legislative sessions, 16 states passed legislation to reduce the reliance on property taxes. The primary method for this reduction is to shift the burden—to increase the state share of school funding. For example, in 1996, Wisconsin increased state appropriations for K-12 education by 31.7 percent to increase the state's share of school funding from 53 percent to 66 percent. Iowa's 1996 budget included \$85 million in property tax relief.²⁵ The practical reality is that the property tax is a productive source of revenue and is difficult to replace. Even though legislatures have taken actions during the last two years to respond to calls for property tax relief, no state has yet found a way to fund education without a sizable portion of the revenue being derived from property taxes.

Non-Tax Revenues for Education

State lotteries are an important and lucrative source of education funding in a few states. In FY 1993, when NCSL surveyed the 50 states on the topic, 13 states allocated the amounts shown to K-12 education (or related purposes) from lottery proceeds.²⁶ Table 1 shows the amounts of lottery collections states dedicated to K-12 education in fiscal year 1993.

The attraction of lotteries for education finance are that they can provide a substantial amount of revenue without requiring a tax increase. Advocates emphasize that lottery purchases are entirely voluntary. Opponents emphasize that lottery purchases are regressive upon income (that is, lottery purchases consume a higher proportion of poor people's income than that of the affluent) and that lotteries can encourage addiction to gambling.

Table 1
State Lottery Proceeds Allocated to Education in FY 1993

State	Amount (in millions of dollars)	Purpose	Percent of Total K-12 Coming from Lottery
California	\$502	K-12 education	1.8
Florida	831	Dept of Education	7.4
Idaho	3	K-12 education	0.4
Illinois	588	K-12 education	5.9
Indiana	85	K-12 education	1.7
Massachusetts	533	Local Aid Fund	10.5
Michigan	427	School Aid Fund	4.1
Montana	18	K-12 education	2.6
New Hampshire	37	K-12 education	3.6
New York	961	K-12 education	4.2
Ohio	658	K-12 education	6.4
West Virginia	4	K-12 education	0.2
Wisconsin	200	Property tax relief	3.7
Total	4,420		

Purely from the point of view of financing education, however, the downside of lotteries includes the uncertainty of growth revenues after the first burst of growth from a new lottery and the possibility that lottery revenues may replace, not augment, traditional sources of education funding. The last column of the table shows the percentage of total state and local government revenue for K-12 education that originated in lottery funds. In comparison, the average annual increase in state appropriations for K-12 education from 1992 through 1995 was 4.8 percent. In most cases, the lottery funds increment for K-12 funding is less than or only a little more than one year's usual increase in funding. Lottery funds generally represent a one-time addition of revenues, not a major continuing source of growth.

If, as in Wisconsin, lottery revenue is used to replace property taxes, that could mean no additional funding for K-12 education, just replacement of an existing source. It has been argued that the Illinois lottery was used in precisely this way.²⁷ Annual growth is also an issue, since lottery proceeds cannot be expected to capture economic growth to the extent that taxes do. Lotteries are publicly administered entertainment that are subject to competition from other forms of gambling, competition that probably will continue to sharpen. Without imaginative and continuous innovations, lottery revenues are likely to fall. Pinning school finances to them is something of a gamble.

Voter overestimation of the relative proportion of state education funding provided by state lotteries in those states that dedicate part or all of lottery profits to education serves as a case in point. A 1993 study of lotteries in 11 states concludes that indirect harm to education funding comes from the lack of public understanding about the effects of lottery funds on education.²⁸ Obtaining more regular funding becomes difficult when the taxpaying public believes that the lottery is already fulfilling education funding needs.

School District Entrepreneurship

In order to supplement local budgets, school districts in many states are turning to novel ways of raising revenues that fall outside traditional state, local and federal tax-funded sources. Referred to as school district entrepreneurship, schools have explored a variety of mechanisms to increase revenues for individual schools. Approaches include the establishment of local education foundations, business-education partnerships, student fees and most recently commercial advertising contracts.

Entrepreneurship in public elementary and secondary education is not new. For decades school districts have found ways to generate money outside state and local tax revenues, with the proceeds earmarked for "extras" such as athletic uniforms or field trips. What appears new is the increased aggressiveness with which school districts are pursuing alternative sources of revenue and the application of the funds to such budget line items as instructional salaries.

In addition to traditional sources, school districts around the country have found several creative sources for generating revenues. Commercial advertising, corporate sponsorships, merchandising efforts, recruitment of tuition-paying students and utilization of development impact fees represent new categories of educational entrepreneurship. In the tradition of local autonomy of schools, these efforts appear laudable. However, intradistrict and interdistrict fiscal equity have become concerns. Some educators maintain that affluent school districts have more resources to tap for entrepreneurial activities and are more savvy about the range of opportunities.²⁹

Equity Concerns with Non-Tax Revenues

Local property taxes currently account for 98 percent of local school revenues.³⁰ Significant equity concerns arise from the use of other revenues to fund education. They include:

- Non-tax revenues tend to be regressive and thus affect horizontal equity;
- Non-tax revenues raise smaller amounts of money than do property, sales or income taxes;
- Non-tax revenues are distributed unevenly and therefore do not address the problem of unequal resources among school districts.

School district entrepreneurship refers to novel ways of raising revenues that fall outside the traditional state, local and federal tax-funded sources.

State aid to education represents approximately 33 percent of state budgets.

Conclusions and Considerations for State Policymakers

To date, education garners the largest share of state budgets. On average, state aid to K-12 education comprises about 33 percent of state budgets. Property, income and sales taxes continue to be the dominant sources of revenue for education. Although states have pursued other revenue sources, the amount of money generated is significantly smaller than that derived from traditional sources.

While the history of taxation and revenue for education indicates a long public commitment, public support for education funding is being eroded by three trends. The first is that less than 30 percent of adults in the United States have children attending public schools. Second, trends in state budgeting indicate that other areas including corrections and Medicaid spending are growing at faster rates. Third, sizable percentages of the public and state elected representatives are convinced that current levels of funding are sufficient. Furthermore, many have argued that educational achievement needs to increase in proportion to funding increases.

Lawmakers will have to decide what is a fair and reasonable level of education support to expect from states and localities.¹¹ Unfortunately, this is not a decision that can be made in isolation. An additional challenge that will have significant implications for policymakers is the projected enrollment growth between now and the year 2002. With the exception of the Midwest, the South, West and Northeast regions are all expected to have substantial growth in K-12 enrollments. As states grapple with support levels for education they will also face the responsibility for determining or amending the overall tax structure and a series of overriding policy questions.

1. What level of support should legislatures provide for education?
2. What amounts need to be spent to provide educational opportunity for all children?
3. How much money does the state have to spend?

Appendix A

Principles of a High-Quality State Revenue System

A high-quality revenue system:

1. Is composed of elements that are complementary, including the finances of both state and local governments.
2. Produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency.
3. Relies on a balanced variety of revenue sources.
4. Treats individuals equitably. Minimum requirements of an equitable system is that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals.
5. Facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.
6. Promotes fair, efficient and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
7. Is responsive to interstate and international economic competition.
8. Minimizes its involvement in spending decisions and makes any such involvement explicit.
9. Is accountable to taxpayers.

Source: *Principles of a High-Quality State Revenue System*. Second edition. (Denver, Colo.: Foundation for State Legislatures and National Conference of State Legislatures, 1992).

Endnotes

1. *School Finance: Trends in U.S. Education Spending*, (Washington, D.C.: General Accounting Office, September 1995) p. 42.
2. It is somewhat misleading to use Hawaii when contrasting state and local shares for funding education as the state of Hawaii is comprised of a single school district.
3. National Conference of State Legislatures, *Principles of a Sound State School Finance System*, (Denver, Colo.: NCSL, 1996).
4. National Conference of State Legislatures, *State Budget Action 1994* (Denver, Colo.: NCSL, 1994).
5. Scott Mackey, "Property Tax Relief, 1995-1996" (Denver, Colo.: National Conference of State Legislatures, 1995).
6. See *Changing Public Attitudes on Governments and Taxes* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, 1994), p.1, for survey results of the relative popularity of federal and state income taxes, state sales tax, and the local property tax, for the last 20 years.
7. Some differences in spending are inevitable and appropriate, depending on factors such as district size, presence of students in poverty, transportation, and the number of students requiring special services. See, for example, *School Daze: Education Finance in the Midwest*, A report of the Midwestern Legislative Conference of the Council of State Governments, (Lombard, Ill.: January 1993).
8. *Serrano vs. Priest*, 5 Cal. 3D 584, 487 P.2D 1241 96 Cal. Rptr. 601 (1971).
9. *San Antonio Indep. Sch. Dist. vs. Rodriguez*, 41 U.S. 1 (1973).
10. See "School Finance Litigation: A Summary and Analysis," by Terry N. Whitney and Faith E. Crampton, *State Legislative Report* 20, no. 1, Denver, Colo.: NCSL, 1995.
11. For a more indepth analysis of this time period, see "School Finance Equity Cases: Does Litigation Work?" *State Education Finance Communications*, (Denver, Colo.: Education Commission of the States, 1995).
12. Scott Mackey and Karen Carter, *State Tax Policy and Senior Citizens*, (Denver, NCSL, 1994).
13. *Rankings of the States, 1993* (West Haven, Conn.: National Education Association, 1993) p. 63.

14. Jim J. Payton and Walter G. Hack, "Ohio" in *Public School Finance Programs of the United States and Canada, 1993-94*, Vol. 2, Steven D. Gold, David M. Smith, and Stephen B. Lawton, eds. (Albany, N.Y.: American Education Finance Association and Center for Study of the States, 1995) p. 496.
15. Musgrave and Musgrave, (1989) p. 425.
16. Computed from data in *Significant Features of Fiscal Federalism* (1994).
17. Mackey and Carter, p. 41.
18. Only Ohio gives school districts the option of a local income tax specifically for school district use. In 1993-94, approximately one sixth of 100 school districts have used it. See Payton and Hack in Gold (1994) ,p. 508.
19. Walter C. Koscher and Ann Nguyen, "Oregon," in Gold (1995), p. 521.
20. Corina L. Eckl, Karen Carter, and Arturo Perez, *State Budget Actions 1994* (Denver, Colo., and Washington, D. C.: National Conference of State Legislatures, November 1994), p. 23.
21. See Terry Whitney, "School Funding Alternatives," *LegisBrief* 2, no. 23 (June 1994).
22. Scott Mackey, *State Efforts to Reduce Reliance on Property Taxes for K-12 Funding* (Denver, Colo.: National Conference of State Legislatures, September 1995).
23. *Significant Features of Fiscal Federalism* (1994) p. 187.
24. Ibid.
25. NCSL, *State Tax Actions*, 1996.
26. Arturo Perez, "Earmarking State Lottery Profits," *NCSL LegisBrief* 3, no. 25 (June/July 1995).
27. Mary O. Borg and Paul M. Mason, "The Budgetary Incidence of Lottery to Support Education," *National Tax Journal* 61, no. 1 (March 1988): 81-82.
28. Arturo Perez, "Earmarking State Lottery Profits," *NCSL LegisBrief* 3, no. 25 (June/July 1995).
29. Paul Bauman and Faith Crampton, "When School Districts Become Entrepreneurs: Opportunity or Danger?", Denver, Colo.: *State Legislative Report* 20, no. 11, July 1995.

30. Gold, 1994.

31. Education Commission of the States, *State Education Leader*, Fall 1995.

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About the Education Partners Project

In early 1994, the National Conference of State Legislatures and the Foundation for State Legislatures convened a group of state legislators, legislative staff, business organizations and nonprofit organizations to begin a conversation about the principles and components of a sound state school finance system.

The major purpose of the Education Partners Project is to encourage dialogue and build consensus among these groups because educational goals can be realized only when coupled with a sound funding system.

In addition to a report, three working papers on related education finance topics emerged from the partnership:

- The Relationship Between Educational Expenditure and Student Achievement
- The Search for Equity in School Funding
- Taxation and Revenues for Education

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